

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND COUNCIL ON THE CITY OF CAPE TOWN

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the City of Cape Town, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 13 to 63.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence for the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the City of Cape Town as at 30 June 2011, and its financial performance, cash flows and comparisons of budget and actual amounts for the year then ended in

accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

9. As disclosed in note 47.2 to the financial statements, the City of Cape Town is party to contractual claims by its suppliers that are subject to mediation. The maximum potential liability is estimated at R401,34 million. The ultimate outcome of these claims could not be determined at year-end.

Restatement of corresponding figures

10. As disclosed in notes 41.1, 42.1.2, 43.2 and 45 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 2011 in the financial statements of the City of Cape Town at, and for the year ended, 30 June 2010.

Material losses

11. As disclosed in note 41.3 to the financial statements, the City of Cape Town suffered a significant water loss with a value of R505,54 million during the year under review. This was incurred as a result of metering inefficiencies, burst pipes and other leakages.
12. As disclosed in note 41.3 to the financial statements, the City of Cape Town suffered a significant electricity loss of R689,26 million. This was as a result of technical losses caused by the nature of electricity and the way it is conducted, via lines, status/condition and age of the network, weather conditions, load on the system, as well as non-technical losses such as theft and vandalism.

Material underspending of the budget

13. As disclosed in the statement of comparison of budget and actual amounts, the City of Cape Town has materially underspent its capital budget to the amount of R867,97 million (23,3%). As a consequence, the municipality has not fully achieved the service delivery objectives, as detailed in the statement of comparison of budget and actual amounts for the year ended 30 June 2011.

Additional matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

15. The draft annual report has not yet been received for review. As a result, it has not been reviewed for any inconsistencies with the financial statements. The draft annual report, as well as the final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

Unaudited supplementary schedules

16. The supplementary information set out on pages 64 to 71 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

18. No material findings relating to the presentation, usefulness and reliability of performance information remained unresolved.

Compliance with laws and regulation

Expenditure management

19. The accounting officer did not take all reasonable steps to prevent irregular expenditure, as disclosed in note 41.1, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

20. Awards were made to providers who are persons in service of the municipality and/or whose directors/principal shareholders are persons in service of the municipality in contravention of SCM regulation 44. Furthermore, the providers failed to declare that they were in the service of the municipality, as required by SCM regulation 13(c).
21. Awards were made to providers who are persons in service of other state institutions or whose directors/principal shareholders are persons in service of other state institutions in contravention of the requirements of SCM regulation 44. Furthermore, the providers failed to declare that they were in the service of the state, as required by SCM regulation 13(c).
22. Persons in service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by the code of conduct for staff members issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000).
23. Awards were made to providers that are listed on the National Treasury's database as persons prohibited from doing business with the public sector in contravention of SCM regulation 38(1)(c).

INTERNAL CONTROL

24. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Financial management

25. The standard declaration of interest forms were not requested as part of the standard bid documentation for awards of goods below R200 000 and/or suppliers and employees did not complete the declaration of interest forms correctly, which led to the SCM unit not being able to identify conflict of interests in a timely manner. The SCM unit has not implemented adequate controls to ensure that awards are not made to persons employed by the municipality or to prevent awards to prohibited suppliers.

OTHER REPORTS

Investigations in progress

26. SCOPA has requested a number of investigations during the year under review. At the date of this report these investigations had not been finalised. These include:
- an investigation into alleged irregular expenditure relating to essential user allowances paid to certain council employees
 - an investigation into grant-in-aid allocations to the Mfuleni early childhood development project
 - an investigation into irregular expenditure resulting from contraventions of the municipal SCM regulations, as reported in the 2009-10 financial statements
 - an investigation into the fruitless and wasteful expenditure regarding grants and subsidies, as reported in the 2009-10 financial statements
 - an investigation into the fruitless and wasteful expenditure regarding the 2010 FIFA World Cup costs, as reported in the 2009-10 financial statements
 - an investigation into a request to write off amounts deemed to be irrecoverable from the SICOCA/IKAPA special project conducted in 2008.

Investigations completed during the financial year

27. As reported in paragraph 19 of the prior year audit report, allegations against a senior official for renting municipal property to private citizens in his personal capacity as well as allegations of irregularities related to the allocation and distribution of houses in certain suburbs, were investigated. The investigation was finalised during the year under review and concluded that the official was involved in unauthorised or improper use of the property. There were insufficient facts to support a charge of fraud against the official. The official subsequently left the employ of the City of Cape Town before disciplinary action could be taken.
28. During the year a number of investigations relating to the contravention of SCM policies and procedures were conducted. The investigations were initiated based on allegations made by management, as well as through the fraud hotline. The nature of cases investigated included possible collusion by service providers and deviations from policies in the extension or granting of contracts and tenders. Instances of valid deviations or fruitless and wasteful expenditure were adequately disclosed in the financial statements.

Agreed upon procedure engagement

29. The city requested an agreed upon procedure engagement to be performed on the housing accreditation systems and controls. The engagement is due to commence in December 2011.

Auditor-General

Cape Town

30 November 2011



AUDITOR-GENERAL
SOUTH AFRICA

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